



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

## **Financial Statements Audit Report**

# **City of Port Orchard**

**Kitsap County**

**For the period January 1, 2013 through December 31, 2013**

**Published December 29, 2014**

**Report No. 1013341**





**Washington State Auditor**  
**Troy Kelley**

December 29, 2014

Mayor and City Council  
City of Port Orchard  
Port Orchard, Washington

**Report on Financial Statements**

Please find attached our report on the City of Port Orchard's financial statements.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**City of Port Orchard  
Kitsap County  
January 1, 2013 through December 31, 2013**

Mayor and City Council  
City of Port Orchard  
Port Orchard, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Port Orchard, Kitsap County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 23, 2014. As discussed in Note 21 to the financial statements, during the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to

disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in dark ink and is positioned above the printed name.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

December 23, 2014

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Port Orchard Kitsap County January 1, 2013 through December 31, 2013**

Mayor and City Council  
City of Port Orchard  
Port Orchard, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Port Orchard, Kitsap County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 10.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Port Orchard, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 21 to the financial statements, in 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

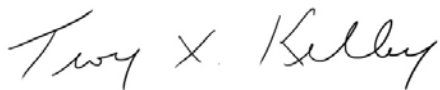
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 19 and information on postemployment benefits other than pensions on page 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required



supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

December 23, 2014

## **FINANCIAL SECTION**

**City of Port Orchard  
Kitsap County  
January 1, 2013 through December 31, 2013**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2013

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2013

Statement of Activities – 2013

Balance Sheet – Governmental Funds – 2013

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2013

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
of Governmental Funds to the Statement of Activities – 2013

Statement of Revenues, Expenditures and Changes in Fund Balances Budget (GAAP  
Basis) and Actual – General Fund – 2013

Statement of Net Position – Proprietary Funds – 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
– 2013

Statement of Cash Flows – Proprietary Funds – 2013

Statement of Fiduciary Net Position – Fiduciary Funds – 2013

Notes to Financial Statements – 2013

### **REQUIRED SUPPLEMENTARY INFORMATION**

LEOFF 1 Retiree Medical Benefits Schedule of Funding Progress – 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Port Orchard's discussion and analysis is a narrative overview of the City's financial activities for the fiscal year ended December 31, 2013. The information presented here should be read in conjunction with the financial statements and notes to the financial statements that follow.

### FINANCIAL HIGHLIGHTS

- City of Port Orchard assets exceeded its liabilities at December 31, 2013 by \$85.4 million.
- Net investment in capital assets account for about 75 percent of this amount, with a value of \$63.9 million.
- Of the remaining net position, \$17.9 million may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction while \$3.6 million is restricted.
- The government's total net position shows an increase of \$3,781,553. A portion of this change was for the several large capital asset projects constructed within the year including Bay Street Pedestrian Path, Dekalb Pier, Cedar Heights Junior High Sidewalk project, and Well No. 9 construction. Also, there was an increase in cash & cash equivalents in the general fund and proprietary funds.
- As of December 31, 2013, City of Port Orchard's governmental funds reported combined ending fund balances of \$6.6 million. Approximately 22.8% of this amount is available for spending at the government's discretion. Unassigned fund balance is \$1,500,327, assigned fund balance is \$1,074,745, committed fund balance \$445,261 and restricted fund balance \$3,566,571 as of December 31, 2013.
- City of Port Orchard's total bonded debt decreased by (\$180,714) during the fiscal year. At December 31, 2013 the total outstanding bonded debt was \$1,203,931.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an introduction and overview to the City of Port Orchard's basic financial statements. This information will assist users in interpreting the basic statements. We will also provide other supplementary information in addition to the basic financial statements. This financial discussion and analysis should assist the reader in understanding the City's financial condition.

#### Basic Financial Statements

The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and, 3) notes to the financial statements. The financial section of this report also contains required supplementary information, in addition to the basic financial statements.

#### Government Wide Financial Statements

Government-wide financial statements provide readers with a broad overview of the City's finances in a manner similar to a private-sector business, distinguishing functions that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities"). The governmental activities of the City include a full range of local government services provided to the public, such as law enforcement and public safety; road construction and maintenance; community planning and development; parks and recreation facilities; and other community services. In addition, other general government services are provided, such as, tax

collection, and the issuance of permits and licenses. The business-type activities of the City include water, sewer and storm utility management and operation.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as one indicator of whether the financial position of the City is improving or deteriorating. Other indicators include the condition of the City's infrastructure systems (roads, drainage systems, bridges, etc.), changes in property tax base, and general economic conditions within the City.

The Statement of Activities presents information showing how the government's net position changed during 2013. This statement separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program). This shows the extent each program relies on taxes for funding. All changes in net position are reported using the accrual basis of accounting, which requires that revenues be reported when they are earned and expenses are reported when the goods and services are received. Items such as uncollected taxes, unpaid vendor invoices for items received in 2013, and earned but unused vacation leave will be included in the statement of activities as revenue and expense, even though the cash associated with these items was not received or distributed in 2013.

#### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting for compliance with finance-related legal requirements. All of the funds of the City fall into three categories: governmental funds, proprietary funds, and fiduciary funds. Governmental funds account for most, if not all, of a government's tax-supported activities. Proprietary funds account for a government's business type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. Fiduciary funds account for resources that are held by the government as an agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the government's own programs.

#### Governmental Funds

The governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances present separate columns of financial data for the General Fund, Cumulative Reserve for Municipal Facilities, and the Street Capital Projects Fund. These are considered major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental funds financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

Because the focus of governmental funds financial statements is narrower than that of government-wide financial statements accrual basis focus, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This gives readers a better understanding of the long-term impact of the government's near-term financing decisions. Both the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide reconciliation to the Governmental Activities column in the Government-Wide statements, facilitating this comparison.

The City maintains budgetary controls over its operating funds. Budgetary controls ensure compliance with legal provisions embodied in the annual appropriated budget. Governmental funds budgets are established in accordance with state law, and are adopted on a fund level. Personnel services are budgeted by position and by prorating the costs based on time allocation to the various funds. Budgetary variances are discussed later in this section.

#### Proprietary Funds

The City has two proprietary funds also known as enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses one enterprise fund to account for its water and sewer utilities operation. The City also has a Storm Drainage Utility Fund. Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the proprietary fund statement of net position to the business-type column on the government-wide statement of net position, the total net position agree, and therefore need no reconciliation.

#### Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

#### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Statement of Net Position

As noted earlier, changes in net position may serve as a useful indicator of a government's financial position. The City of Port Orchard's net position total \$85,438,324 at December 31, 2013. The following is a condensed version of the government-wide statement of net position.

#### City of Port Orchard's Condensed Statement of Net Position

	Governmental Activities 2013	Governmental Activities 2012	Business-Type Activities 2013	Business-Type Activities 2012	Total Activities 2013	Total Activities 2012
Current and other assets	\$ 7,498,762	\$ 6,119,825	\$ 15,296,881	\$ 14,355,011	\$ 22,795,643	\$ 20,474,836
Capital assets	26,429,662	25,571,792	38,847,060	38,601,980	65,276,722	64,173,772
Total assets	33,928,424	31,691,617	54,143,941	52,956,991	88,072,365	84,648,608
Long-Term liabilities	1,627,307	1,670,832	578,359	629,833	2,205,666	2,300,665
Liabilities Payable from Restricted Assets	106,287	19,445			106,287	19,445
Other liabilities	161,594	185,493	152,498	486,234	314,092	671,727
Total liabilities	1,895,188	1,875,770	730,857	1,116,067	2,626,045	2,991,837
Deferred Amount on Refunding	7,072	-	924	-	7,996	-
Total deferred inflows of resources	7,072	-	924	-	7,996	-
Net Position						
Invested in capital assets						
net of related debt	25,543,714	24,552,657	38,350,730	38,053,892	63,894,444	62,606,549
Restricted	3,622,688	3,255,641	-	-	3,622,688	3,255,641
Unrestricted	2,859,762	2,007,549	15,061,430	13,787,032	17,921,192	15,794,581
Total net position	\$ 32,026,164	\$ 29,815,847	\$ 53,412,160	\$ 51,840,924	\$ 85,438,324	\$ 81,656,771

The large increase in capital assets is added infrastructure constructed within the year including Bay Street Pedestrian Path, Dekalb Pier, Cedar Heights Junior High Sidewalk project, and Well No. 9 construction. The largest portion of the City's net position (75 percent) reflects its investment in capital, less any related debt used to acquire those assets that is still outstanding. The City's capital assets are used to provide services to citizens. Consequently the value of these assets are not available for future spending. Of the remaining balance, \$3,622,688 is restricted and \$17,921,192 (unrestricted net position) represents the amount that may be used to meet the City's ongoing obligations.

At December 31, 2013, the City of Port Orchard reports positive balances in the two categories of net position, for the government as a whole, as well as for separate governmental and business-type activities.

## Statement of Activities

In 2013 the City's total net position increased by \$3,781,553 including prior period adjustments. The governmental net position increased \$2,210,316 and business-type activities increased \$1,571,236 including prior period adjustments.

The following is a condensed version of the statement of activities for the City. The full statement is a tabular depiction of the relationship of revenues and expenses for the City's governmental activities and proprietary funds. The City received donated artwork, easements for Bay Street Pedestrian Path and easements Cedar Heights Junior High Sidewalk, sewer, and storm drainage systems.

### City of Port Orchard's Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 1,320,668	\$ 1,652,245	\$ 5,698,164	\$ 5,665,313	\$ 7,018,832	\$ 7,317,558
Operating grants & contributions	510,948	779,534	141,810	-	652,758	779,534
Capital grants & contributions	1,485,222	961,594	1,229,148	1,710,895	2,714,370	2,672,489
<b>General revenues:</b>						
Property taxes	2,742,196	2,389,039	-	-	2,742,196	2,389,039
Sales taxes	3,875,305	3,175,095	-	-	3,875,305	3,175,095
Other taxes	1,641,262	1,790,761	-	-	1,641,262	1,790,761
Interest income	31,304	36,712	16,355	21,095	47,659	57,807
Gain on sale of capital assets	22,995				22,995	
Other revenues	2,085	1,455	-	-	2,085	1,455
<b>Total Revenues</b>	<b>\$ 11,631,985</b>	<b>\$ 10,786,435</b>	<b>\$ 7,085,477</b>	<b>\$ 7,397,303</b>	<b>\$ 18,717,462</b>	<b>\$ 18,183,738</b>
<b>Expenses:</b>						
General government	2,087,020	2,192,627	-	-	2,087,020	2,192,627
Judicial	479,490	555,414	-	-	479,490	555,414
Public safety	4,157,052	4,257,821	-	-	4,157,052	4,257,821
Physical environment		158,536	-	-	-	158,536
Transportation	1,696,539	1,538,456	-	-	1,696,539	1,538,456
Health and human services	13,212	13,978	-	-	13,212	13,978
Economic environment	476,914	682,028	-	-	476,914	682,028
Culture and recreation	388,424	351,534	-	-	388,424	351,534
Water - Sewer	-	-	4,719,705	4,489,727	4,719,705	4,489,727
Storm Drainage	-	-	789,126	672,477	789,126	672,477
Interest on long-term debt	33,610	39,729	-	-	33,610	39,729
<b>Total Expense</b>	<b>\$ 9,332,261</b>	<b>\$ 9,790,123</b>	<b>\$ 5,508,831</b>	<b>\$ 5,162,204</b>	<b>\$ 14,841,092</b>	<b>\$ 14,952,327</b>
Increase/(decrease) in Net Position before transfers	2,299,724	996,312	1,576,646	2,235,099	3,876,370	3,231,411
Special Item -Annexation		1,086,773		1,625,409	-	2,712,182
Transfers	-	-	-	-	-	-
<b>Change in net position</b>	<b>2,299,724</b>	<b>2,083,085</b>	<b>1,576,646</b>	<b>3,860,508</b>	<b>3,876,370</b>	<b>5,943,593</b>
Net Position Beginning	29,815,848	27,732,763	51,840,924	47,980,416	81,656,772	75,713,179
Prior Period Adjustments	(74,697)				(74,697)	
Changes in Accounting Principles	(14,711)		(5,410)		(20,121)	
<b>Net Position Ending</b>	<b>\$ 32,026,164</b>	<b>\$ 29,815,848</b>	<b>\$ 53,412,160</b>	<b>\$ 51,840,924</b>	<b>\$ 85,438,324</b>	<b>\$ 81,656,772</b>



### Governmental Activity Analysis

Total revenues in governmental activities increased by 7.84%. The City's tax revenues increased by \$903,868, 12.3% in 2013. The main sources of revenue came from retail sales and use tax and property taxes. Sales tax increased from the prior year by \$700,210, 22.1%. Property taxes increased by \$353,157, 14.8%. Charges for services decreased by (\$331,577), 20.0% partly due to planning and building revenue decreasing in 2013 also the school resource officer contract decreased by 50%.

Total expenses in governmental activities decreased by 4.7%. The City incurred increases in the following functions: Transportation \$158,083 and Culture and Recreation \$36,890. While the following functions incurred a decrease: General Government (\$105,607), Judicial (\$75,924), Public Safety (\$100,769), Health & Human Services (\$766) and Economic Environment (\$205,114). Due to the BARS restructure the expenses previously reported under the Physical Environment category were changed to General Government and Economic Environment. The major decrease in economic environment was due to staffing changes in 2013. In 2012 the City had expenses for the completion of Phase 1 of the Bay Street Undergrounding Project, there was no activity in 2013 for this project. Judicial decreased due to public defender charges being moved into the general government category. The net position associated with governmental activities increased by \$2,210,316.

### Business-Type Activities Analysis

This year, the Water-Sewer Fund had increases in operating revenues of 6.3%, and a 5.2% increase in operating expenses, with an overall increase in net position of 3.2%. The Storm Drainage Utility had an increase in operating revenues of 23.7%, an increase in operating expenses of 17.3%, and an overall increase in net position of 2.4%. The increase in net position is due to new construction, grant revenues, and donated infrastructure.

## **FINANCIAL ANALYSIS OF CITY FUNDS**

### Governmental Funds Analysis

The City uses fund accounting to ensure compliance with legal requirements and to assist in the budgeting and operations of the different activities of the City. The City has ten governmental funds that are categorized into four fund types. Each type has its unique purpose. The City Street Fund and Stabilization Fund are managerial funds and are reported in the General Fund. Three funds are classified as major funds for the purposes of this report, based on GASB criteria. They are the General Fund, Cumulative Reserve for Municipal Facilities, and Street Capital Projects Fund.

The General Fund's fund balance increased by \$1,005,529. Revenues are higher and expenditures lower. The largest source of revenue is sales and use tax representing 39.9%. The largest expenditure category is security of persons and property, representing 47% of the governmental activity.

The Cumulative Reserve for Municipal Facilities had an increase in fund balance of \$127,844. In 2013 the City had grant activity and capital expenditures for Dekalb Pier and Bay Street Pedestrian Path within this fund.

The Street Capital Projects Fund had an increase in fund balance of \$85,488. In 2013 the City continued engineering and purchasing temporary construction easements for future widening of Tremont Street from Port Orchard Boulevard to State Route 16 including the installation of two roundabouts. This fund also had construction expenses for the Cedar Heights Junior High sidewalk.



The change in total governmental funds' fund balance was an overall increase of \$1,391,858.

#### Business-Type Fund Analysis

Proprietary funds are those funds that account for government operations where the intent is for the costs to be primarily paid for by user charges. Enterprise funds are those funds that provide services primarily to external users, and Internal Service funds provide their services primarily within the City, or to other governmental units.

The Water-Sewer Fund had a total net position at year-end of \$43.7 million. This fund had operating losses of (\$45,036). The Water-Sewer fund had an increase in total net position of 3.1%, \$1,347,445. The increase was due to the investment in joint venture of the sewer treatment plant and capital contributions. The increasing numbers of users are having the dual effect of increasing revenues and additional demands on the systems. The Storm Drainage Utility Fund had a total net position at year-end of \$9.7 million and showed an operating increase of \$63,293. Storm Drainage fund total net position increased by 2.3%, \$223,791.

2013 Capital Projects for Water-Sewer included the construction of Well No. 9, the addition of electrical to the Public Works carport, the purchase of a new truck, and the Cedar Heights Junior High School sewer construction. Storm drainage's main capital project was the Cedar Heights Junior High School storm drain construction.

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

GASB 54 mandates that managerial funds cannot be reported in the Budget vs. Actual for the General Fund. This results in not including the City Street and Stabilization Funds. The City appropriates funds through an annual budget process while state law allows additional funds to be expended if authorized by an ordinance amending the original budget. Revenues ended the year ahead of the budget 4.5%. Sales taxes increased by 301,793 and property tax increased by \$30,739. Expenditures were 94% of the amended budget.

The final budget, when compared to the original budget, showed increases (decreases) in: General Government \$86,356, Security of Persons and Property \$42,950, Physical Environment \$6,850, Economic Development (\$29,730), Culture and Recreation \$100,400, and Capital Expenditures (\$91,210).

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The City of Port Orchard's investment in capital assets, including construction in progress, for its governmental and business type activities as of December 31, 2013, amounts to \$65,276,722, (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, construction in progress, buildings, equipment, and infrastructure.

	Governmental Activities		Business Activities		Government Wide	
	1/1/2013	12/31/2013	1/1/2013	12/31/2013	1/1/2013	12/31/2013
Land	\$ 1,737,976	\$ 1,706,176	\$ 786,712	\$ 786,712	\$ 2,524,688	\$ 2,492,888
Intangible Assets	2,907,826	3,045,951	507,008	549,575	3,414,834	3,595,526
Construction in Progress	1,830,667	1,852,353	1,417,955	1,958,020	3,248,622	3,810,373
Buildings	4,745,939	5,327,111	2,884,171	2,809,216	7,630,110	8,136,327
Equipment	885,149	861,042	1,612,586	1,398,392	2,497,735	2,259,434
Infrastructure	13,397,565	13,637,029	31,393,549	31,345,145	44,791,114	44,982,174
	<u>\$ 25,505,122</u>	<u>\$ 26,429,662</u>	<u>\$ 38,601,981</u>	<u>\$ 38,847,060</u>	<u>\$ 64,107,103</u>	<u>\$ 65,276,722</u>

In governmental activities, the 2013 beginning balance of land, construction in progress and infrastructure are restated because a small portion of land was not previously included in the land category and two assets were removed from capital asset records as the projects will not be constructed. Infrastructure and buildings & structures has increased largely due to the addition of the Cedar Heights Junior High Sidewalk and the Dekalb Pier project. Machinery & equipment is decreased due to depreciation and surplussed vehicles. Construction in progress decreases slightly this year as projects are completed. And, Intangible assets increased because of right of way easements obtained for the Cedar Heights Junior High Sidewalk and Bay Street Pedestrian Path. Land has decreased slightly due to property sales.

In business activities the infrastructure, buildings & structures, and machinery & equipment categories decreased due to depreciation. Construction in progress experienced a large increase because of the Well No. 9 construction project and intangible assets had a modest increase due to storm and sewer easements for the Cedar Heights Junior High storm drain and sewer main projects.

Additional information on the City of Port Orchard's capital assets can be found in Note 6 (capital assets) of this report.

### Long-Term Debt

At December 31, 2013, the City of Port Orchard had total long-term debt outstanding of \$2,205,665. Of this amount, \$1,203,931 is general obligation bonds, \$170,350 is a note made with a private party, \$463,193 long-term compensated absences, and other postemployment benefits (OPEB) \$368,191.

During 2013, the City of Port Orchard's net total debt decreased by (\$85,571). The decrease included annual payments on the outstanding debt, changes in compensated absences and the current year increase for OPEB.

Additional information on the City's long-term debt can be found in Note 11, Long-Term Debt and Note 13, Changes in Long-Term Liabilities of the notes to the financial statement in this report.

### Economic Factors

The state of Washington does not have a state personal income tax and therefore the state operates primarily using sales and use tax, ad valorem, and motor vehicle excise tax. The City relies on sales and use tax, property tax, and utility taxes and a limited array of permitted taxes, fees, and state and federal grants to support its governmental activities.

Sales and use tax represents a major revenue source for governmental funds and provides an economic measurement of the local economy. In 2008 the City began to feel the impact of the economic slowdown with the national economy. Actual effects on the City were masked by two large annexations that took place in 2009 and 2012. The first, an annexation of an area consisting of mainly residential property increased the cities assessed valuation by \$331,911,289. The second consisted of the areas retail core resulting in an assessed valuation increase of \$139,440,696 and 15% increase in sales tax.

Construction of multifamily housing projects near the intersection of Sidney and Sedgwick continues with 126 additional units and is under construction in the spring of 2014. These units are added to the 102 units constructed in 2012. The City Council authorized improvements to Well No. 10 for the construction of a state-of-the-art water treatment plant. The treatment project provides a long-term solution to declining yields from existing city wells, and reduces dependency on neighboring water systems to meet peak day demands and improves both water quality and system reliability. The project is viewed as necessary for continued development within city limits. Construction on the McCormick Village Park phase 1 improvements began in the fall with the goal of providing recreational opportunities and enhancing the city's livability. The City completed design and right of way acquisition for the Tremont Widening project and continues to actively pursue state and federal funding for the construction phase of the project.

The City's population in 2013 was 12,780 as reported by the Office of Finance Management (OFM). An increase of 97 peoples over the previous year.

Washington continues to be a state impacted by tax limiting initiatives and a struggling state budget. The City Council continues to be proactive with other agencies to monitor and lobby for regulations to minimize the impact to the City and provide funds for City services.

The level of taxes, fees, and charges for services will have a bearing on the City's competitive ability to encourage retail, office, residential, and industrial development. The City places significant emphasis on encouraging economic development to attract family wage paying jobs, and as an incentive does not assess a business and occupation tax (B & O).

### Requests for Information

This financial report is designed to provide a general overview of the City of Port Orchard's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the City Treasurer, City of Port Orchard, 216 Prospect Street, Port Orchard, WA, 98366.

CITY OF PORT ORCHARD  
Statement of Net Position  
December 31, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 3,076,381	\$ 6,135,420	\$ 9,211,801
Receivables (Net of Allowance for Uncollectable)			
Taxes Receivable	125,904	-	125,904
Accounts Receivable	536,769	920,553	1,457,322
Due from Other Governmental Units	21,954	37,615	59,569
Restricted Assets:			
Cash and Cash Equivalents	3,647,699	-	3,647,699
Receivables	57,697	-	57,697
Due from Other Governmental Units	32,358	-	32,358
Investment in Joint Venture	-	8,203,293	8,203,293
Capital Assets not being depreciated	6,584,327	3,203,141	9,787,468
Capital Assets (Net of Accumulated Depreciation)	19,845,335	35,643,919	55,489,254
Total Assets	33,928,424	54,143,941	88,072,365
<b>LIABILITIES</b>			
Accounts Payable	147,084	86,699	233,783
Deposits		1,200	1,200
Unearned Revenue	11,917	63,636	75,553
Accrued expenses	2,593	963	3,556
Liabilities Payable from Restricted Assets	66,249	-	66,249
Unearned Revenue-Restricted	40,038	-	40,038
Noncurrent Liabilities:			
Due within One Year	487,730	121,004	608,734
Due in More than One Year	1,139,577	457,355	1,596,932
Total Liabilities	1,895,188	730,857	2,626,045
<b>DEFERRED INFLOWS of RESOURCES</b>			
Deferred Amount on Refunding	7,072	924	7,996
Total Deferred Inflows of Resources	7,072	924	7,996
<b>NET POSITION</b>			
Net Investment in Capital Assets	25,543,715	38,350,730	63,894,445
Restricted for:			
Criminal Justice	256,915	-	256,915
Law Enforcement Investigative Funds	102,199	-	102,199
Tourism Promotion	25,524	-	25,524
Paths & Trails	2,127	-	2,127
Parks	154,711	-	154,711
McCormick Woods Park	545,382	-	545,382
Vacation abutting water	7,500	-	7,500
Transportation	1,199,732	-	1,199,732
Capital (REET)	1,328,598	-	1,328,598
Unrestricted	2,859,761	15,061,430	17,921,191
Total Net Position	\$ 32,026,164	\$ 53,412,160	\$ 85,438,324

The notes to the financial statements are an integral part of this statement

# CITY OF PORT ORCHARD

## Statement of Activities

Year Ended December 31, 2013

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
			Grants	Contributions				
<b>PRIMARY GOVERNMENT</b>								
Governmental Activities:								
General Government	\$ 2,087,020	\$ 215,027	\$ 129,167	\$ -	\$ -	\$ (1,742,825)	\$ -	\$ (1,742,825)
Judicial	479,490	288,786	2,122	-	-	(188,583)	-	(188,583)
Public Safety	4,157,052	321,029	102,266	-	-	(3,733,756)	-	(3,733,756)
Transportation	1,696,539	78,505	261,093	-	944,316	(412,625)	-	(412,625)
Health and Human Services	13,212	-	-	-	-	(13,212)	-	(13,212)
Economic Environment	476,914	327,189	(2,157)	-	-	(151,882)	-	(151,882)
Culture and Recreation	388,424	90,132	18,458	-	540,906	261,072	-	261,072
Interest on Long-Term Debt	33,610	-	-	-	-	(33,610)	-	(33,610)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>9,332,261</b>	<b>1,320,668</b>	<b>510,948</b>	<b>1,485,222</b>	<b>-</b>	<b>(6,015,422)</b>	<b>-</b>	<b>(6,015,422)</b>
Business-Type Activities:								
Water - Sewer	4,719,705	4,845,745	-	-	1,211,183	-	1,337,223	1,337,223
Storm Drainage	789,126	852,419	141,810	-	17,965	-	223,068	223,068
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>5,508,831</b>	<b>5,698,164</b>	<b>141,810</b>	<b>1,229,148</b>	<b>-</b>	<b>-</b>	<b>1,560,291</b>	<b>1,560,291</b>
<b>Total Primary Government</b>	<b>\$ 14,841,092</b>	<b>\$ 7,018,832</b>	<b>\$ 652,758</b>	<b>\$ 2,714,369</b>	<b>\$ -</b>	<b>(6,015,422)</b>	<b>1,560,291</b>	<b>(4,455,131)</b>
<b>General Revenues:</b>								
<b>Taxes:</b>								
Property Taxes Levied for General Purposes						2,265,556	-	2,265,556
Other Taxes						476,640	-	476,640
Sales and Use Taxes						3,875,305	-	3,875,305
Business and Occupation Taxes						1,641,262	-	1,641,262
Unrestricted Investment Earnings						31,304	16,355	47,659
Gain on Sale of Capital Assets						22,995	-	22,995
Miscellaneous						2,085	-	2,085
<b>Total General Revenues and Special Items</b>						<b>8,315,147</b>	<b>16,355</b>	<b>8,331,502</b>
Change in Net Position						2,299,725	1,576,646	3,876,371
Net Position - Beginning						29,815,848	51,840,924	81,656,772
Prior Period Adjustments						(74,697)	-	(74,697)
Changes in Accounting Principles						(14,711)	(5,410)	(20,121)
Net Position - Ending						\$ 32,026,165	\$ 53,412,160	\$ 85,438,325

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ORCHARD  
Governmental Funds  
Balance Sheet  
December 31, 2013

	General Fund	Cumulative Reserve for Municipal Facilities	Street Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Cash and Cash Equivalents	\$ 2,846,997	\$ 1,360,319	\$ 754,771	\$ 1,761,994	\$ 6,724,080
Property Taxes Receivables (net)	125,904	-	-	-	125,904
Accounts Receivable	536,769	-	1,581	56,116	594,466
Due from Other Governmental Units	21,955	20,481	11,877	-	54,312
Total Assets	<u>3,531,625</u>	<u>1,380,799</u>	<u>768,229</u>	<u>1,818,110</u>	<u>7,498,763</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>					
<b>Liabilities:</b>					
Accounts Payable	147,084	52,201	595	13,453	213,333
Unearned Revenue	51,955	-	-	-	51,955
Total Liabilities	<u>199,039</u>	<u>52,201</u>	<u>595</u>	<u>13,453</u>	<u>265,288</u>
<b>Deferred Inflows of Resources</b>					
Unavailable Revenue-Property Taxes	125,904	-	-	-	125,904
Unavailable Revenue-Court	464,551	-	-	56,116	520,667
Total Deferred Inflows of Resources	<u>590,455</u>	<u>-</u>	<u>-</u>	<u>56,116</u>	<u>646,571</u>
<b>Fund Balances:</b>					
<b>Restricted for:</b>					
Criminal Justice	-	-	-	256,915	256,915
Law Enforcement	-	-	-	46,083	46,083
Tourism	-	-	-	25,523	25,523
Parks	-	-	-	154,711	154,711
McWds Parks	-	-	-	545,382	545,382
Transportation	7,500	-	767,634	434,226	1,209,360
Capital Projects	-	1,328,598	-	-	1,328,598
<b>Committed to:</b>					
Recreation	264,403	-	-	-	264,403
Stabilization	180,858	-	-	-	180,858
<b>Assigned to:</b>					
Parks	86,616	-	-	-	86,616
City Hall	33,610	-	-	-	33,610
Street	668,818	-	-	-	668,818
Capital Equipment Replacement	-	-	-	285,701	285,701
Unassigned	1,500,327	-	-	-	1,500,327
Total Fund Balances	<u>2,742,132</u>	<u>1,328,598</u>	<u>767,634</u>	<u>1,748,541</u>	<u>\$ 6,586,905</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 3,531,626</u>	<u>\$ 1,380,799</u>	<u>\$ 768,229</u>	<u>\$ 1,818,110</u>	

Amounts reported for governmental activities in the statement of net position are different because (See Note 2 also):

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	26,429,661
Unavailable revenue to pay current year expenditures	646,571
Long-term liabilities that are not due and payable in the current period and are not reported in the funds	(1,636,972)
Net position of governmental activities	<u>\$ 32,026,164</u>

The notes to the financial statements are an integral part of this statement

CITY OF PORT ORCHARD  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
For the year ended December 31, 2013

	General Fund	Cumulative Reserve for Municipal Facilities	Street Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property Taxes	\$ 2,319,124	\$ -	\$ -	\$ -	\$ 2,319,124
Retail Sales and Use Taxes	3,648,600	-	-	226,705	3,875,305
Other Taxes	1,641,262	476,640	-	-	2,117,902
License and Permits	330,236	-	-	-	330,236
Intergovernmental	327,384	1,001,830	462,264	76,853	1,868,330
Charges for Services	417,420	133	42	-	417,595
Fines and Forfeits	266,217	-	493	4,079	270,789
Interest Earnings	26,980	5,878	856	5,752	39,466
Rents and Royalties	121,306	-	805	-	122,111
Planning & Development Contributors	-	-	-	135,926	135,926
Contributions/Donations	7,900	-	-	-	7,900
Miscellaneous	42,189	-	-	9,504	51,693
Total Revenues	9,148,618	1,484,481	464,459	458,820	11,556,377
Expenditures:					
Current					
General Government	1,739,769	10,191	-	-	1,749,960
Judicial	479,490	-	-	-	479,490
Security of Persons and Property	3,887,662	-	-	134,899	4,022,561
Transportation	977,444	-	-	30,616	1,008,060
Economic Environment	477,714	-	-	-	477,714
Mental and Physical Health	13,212	-	-	-	13,212
Culture and Recreation	278,862	-	-	76,863	355,725
Capitalized Expenditures	161,729	1,159,829	378,970	106,608	1,807,137
Debt Service					
Principal Retirement	-	-	-	131,400	131,400
Interest/Fiscal Charges	-	-	-	35,218	35,218
Intergovernmental Payments	190,922	-	-	-	190,922
Total Expenditures	8,206,804	1,170,020	378,970	515,604	10,271,399
Excess (Deficiency) of Revenues Over (Under) Expenditures	941,814	314,461	85,488	(56,784)	1,284,978
Other Financing Sources (Uses)					
Sale of Capital Assets	54,795	-	-	-	54,795
Compensation for Loss/Impair Capital Assets	25,828	-	-	-	25,828
Transfers In	92,342	-	-	292,618	384,960
Insurance Recoveries	16,750	-	-	9,507	26,257
Transfers Out	(126,000)	(186,618)	-	(72,342)	(384,960)
Total Other Financing Sources and Uses	63,715	(186,618)	-	229,783	106,881
Net Change in Fund Balances	1,005,529	127,844	85,488	172,999	1,391,858
Fund Balance at Beginning of Year	1,769,105	1,200,754	682,145	1,575,541	5,227,546
Prior Period Adjustments	(32,500)	-	-	-	(32,500)
Fund Balance at End of Year	\$ 2,742,134	\$ 1,328,598	\$ 767,634	\$ 1,748,540	\$ 6,586,906

The notes to the financial statements are an integral part of this statement

CITY OF PORT ORCHARD  
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
of Governmental Funds to the Statement of Activities  
Year Ended December 31, 2013

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Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds:	\$ 1,391,858
 Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which capital outlays exceeded depreciation in the current period.	 828,499
 The net effect of various miscellaneous transactions involving capital assets ( i.e., sales, trade-ins, and donations) to decrease net position.	 96,041
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	 (53,467)
 The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	  131,400
 Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	 (94,605)
 Changes in Net Position (governmental activities)	 <u>\$ 2,299,726</u>

The notes to the financial statements are an integral part of this statement



CITY OF PORT ORCHARD  
General Fund  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Budget (GAAP Basis) and Actual  
For the Fiscal Year Ended December 31, 2013

	Budgeted Amounts			Variance with
	Original	Final	Actual Amount	Final Budget
Revenues:				
Property Taxes	\$ 1,268,951	\$ 1,268,951	\$ 1,299,690	\$ 30,739
Sales and Use Taxes	3,291,507	3,346,807	3,648,600	301,793
Other Taxes	1,581,709	1,581,709	1,641,262	59,553
License and Permits	335,200	335,200	328,856	(6,344)
Intergovernmental	166,146	247,962	202,060	(45,902)
Charges for Services	404,700	404,700	392,860	(11,840)
Fines and Forfeits	298,000	298,000	266,217	(31,783)
Interest Earnings	20,600	20,600	24,075	3,475
Rents and Royalties	111,000	111,000	110,719	(281)
Contributions/Donations	1,500	1,500	7,555	6,055
Miscellaneous	1,000	1,000	38,040	37,040
Total Revenues	7,480,313	7,617,429	7,959,935	342,505
Expenditures:				
Current				
General Government	1,805,582	1,899,108	1,739,769	159,339
Judicial	491,002	491,002	479,490	11,512
Security of Persons and Property	3,980,365	4,023,315	3,887,662	135,653
Economic Environment	536,206	506,156	477,714	28,442
Mental and Physical Health	14,443	14,443	13,212	1,231
Culture and Recreation	218,059	318,459	278,862	39,597
Capitalized Expenditures	254,400	163,190	83,302	79,888
Intergovernmental Payments	190,930	190,930	190,922	8
Total Expenditures	7,490,987	7,606,603	7,150,932	455,670
Excess (Deficiency) of Revenues Over (Under) Expenditures	(10,674)	10,826	809,003	798,175
Other Financing Sources (Uses):				
Sale of Capital Assets	-	-	39,565	39,565
Compensation for Loss/Impair Capital Assets			24,091	24,091
Transfers In	270,000	276,000	98,342	(177,658)
Insurance Recoveries	-	-	13,014	13,014
Transfers Out	(156,000)	(183,500)	(183,500)	-
Total Other Financing Sources and Uses	114,000	92,500	(8,488)	(100,988)
Net Change in Fund Balance	103,326	103,326	800,515	697,187
Fund Balances at Beginning of Year	746,250	746,250	1,116,943	370,693
Prior Period adjustments	-	-	(32,500)	
Fund Balances at End of Year	\$ 849,576	\$ 849,576	\$ 1,884,958	\$ 1,067,880
Adjustment to generally accepted accounting principles (GAAP) basis:				
City Street Fund			676,318	
Stabilization Fund			180,858	
Fund Balance - GAAP basis			\$ 2,742,134	

The notes to the financial statements are an integral part of this statement

CITY OF PORT ORCHARD  
Proprietary Funds  
Statement of Net Position  
December 31, 2013

	Major Enterprise Fund Water-Sewer	Major Enterprise Fund Storm Drainage	Total Business Activities
<b>Assets:</b>			
<i>Current Assets:</i>			
Cash and Cash Equivalents	\$ 5,440,627	\$ 694,793	\$ 6,135,420
Receivables (net)			
Accounts	786,341	134,212	920,553
Due from Other Governmental Units	-	37,615	37,615
Total Current Assets	6,226,968	866,620	7,093,588
<i>Non Current Assets:</i>			
Investment in Joint Venture	8,203,293	-	8,203,293
Property, Plant and Equipment (Net)	29,984,107	8,862,953	38,847,060
Total Non Current Assets	38,187,400	8,862,953	47,050,353
Total Assets	44,414,368	9,729,573	54,143,941
<b>Liabilities</b>			
<i>Current Liabilities:</i>			
Accounts Payable	79,076	7,623	86,699
Deposits	1,200	-	1,200
Accrued Interest Payable	963	-	963
Accrued Employee Benefits	49,348	21,514	70,862
Bonds, Notes, Loans Payable	50,142	-	50,142
Total Current Liabilities	180,729	29,137	209,866
<i>Non Current Liabilities:</i>			
Bonds, Notes and Loan Payable (Net)	445,264	-	445,264
Accrued Employee Benefits	8,420	3,671	12,091
Unearned Revenues	63,636	-	63,636
Total Non Current Liabilities	517,320	3,671	520,991
Total Liabilities	698,049	32,808	730,857
<b>Deferred Inflows of Resources</b>			
Deferred Amounts on Refunding	924	-	924
Total Deferred Inflows of Resources	924	-	924
<i>Net Position</i>			
Net Invested in Capital Assets	29,487,777	8,862,953	38,350,730
Unrestricted	14,227,618	833,812	15,061,430
Total Net Position	\$ 43,715,395	\$ 9,696,765	\$ 53,412,160

The notes to the financial statements are an integral part of this statement

CITY OF PORT ORCHARD  
Proprietary Funds  
Statement of Revenues, Expenses and Changes in Fund Net Position  
For the Fiscal Year Ended December 31, 2013

	Major Enterprise Fund Water-Sewer	Major Enterprise Fund Storm Drainage	Total Business Activities
Operating Revenues			
Charge for Services	\$ 4,609,713	\$ 850,019	\$ 5,459,732
Miscellaneous	52,411	2,400	54,811
Total Operating Revenues	4,662,124	852,419	5,514,543
Operating Expenses			
Operations			
General Operations	2,712,514	399,686	3,112,200
Water Purchased for Resale	36,545	-	36,545
Customer Service and Marketing	189,127	53,248	242,375
General Administration	783,827	143,811	927,638
Taxes	350,515	61,433	411,948
Depreciation, Amortization, Depletion	634,632	130,948	765,580
Total Operating Expenses	4,707,160	789,126	5,496,286
Operating Income (loss)	(45,036)	63,293	18,257
Nonoperating Revenues (Expenses)			
Interest Earnings	15,632	723	16,355
State and Federal Grants	-	141,810	141,810
Interest and Fiscal Charges	(12,545)	-	(12,545)
Net Income (Loss) of Joint Ventures	183,621	-	183,621
Total Nonoperating Revenues (Expenses)	186,708	142,533	329,241
Income (Loss) before Contributions	141,672	205,826	347,498
Capital Contributions	1,211,183	17,965	1,229,148
Increase (Decrease) in Net Position	1,352,855	223,791	1,576,646
Total Net Position at Beginning of Year	42,367,950	9,472,974	51,840,924
Changes in Accounting Principles	(5,410)	-	(5,410)
Total Net Position at End of Year	\$ 43,715,395	\$ 9,696,765	\$ 53,412,160

The notes to the financial statements are an integral part of this statement

CITY OF PORT ORCHARD  
Proprietary Funds  
Statement of Cash Flows  
For the Fiscal Year Ended December 31, 2013

	Major Enterprise Fund Water-Sewer	Major Enterprise Fund Storm Drainage	Total Business Activities
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 4,658,873	\$ 845,977	\$ 5,504,850
Cash Payments to Suppliers	(2,932,547)	(278,314)	(3,210,861)
Cash Payments to Employees	(1,153,884)	(321,775)	(1,475,659)
Cash Payments to other Governments (Taxes)	(350,515)	(61,433)	(411,948)
Net Cash Provided by Operating Activities	221,927	184,455	406,382
Cash Flows from Noncapital Financing Activities:			
Receipt of Grant Funds	-	45,089	45,089
Net Cash Provided (Used) by Noncapital Financing Activities	-	45,089	45,089
Cash Flows from Capital and Related Financing Activities:			
Acquisition and Construction of Capital Assets	(833,795)	(89,751)	(923,546)
Principal Paid on GO Bond	(48,600)	-	(48,600)
Principal Paid on Other Long-Term Obligations	(2,800)	-	(2,800)
Interest Paid on Revenue Bonds and Other Long-Term Debt	(13,027)	-	(13,027)
Receipt of Capital Contributions	1,176,950	59,105	1,236,055
Net Cash Provided for Capital and Related Financing Activities	278,728	(30,646)	248,082
Cash Flows from Investing Activities:			
Interest on Investments	15,632	723	16,355
Net Cash Used by Investing Activities	15,632	723	16,355
Net Increase (Decrease) in Cash and Cash Equivalents	516,287	199,621	715,908
Cash and Cash Equivalents at Beginning of Year	4,924,340	495,172	5,419,512
Cash and Cash Equivalents at End of Year	5,440,627	694,793	6,135,420
Cash and Cash Equivalents	5,440,627	694,793	6,135,420
Restricted Cash and Cash Equivalents	-	-	-
Total Cash and Cash Equivalents	\$ 5,440,627	\$ 694,793	\$ 6,135,420

The notes to the financial statements are an integral part of this statement

CITY OF PORT ORCHARD  
Proprietary Funds  
Statement of Cash Flows  
For the Fiscal Year Ended December 31, 2013

	Major Enterprise Fund Water-Sewer	Major Enterprise Fund Storm Drainage	Total Business Activities
Reconciliation of Operating Income (Loss) to Net			
Cash Used by Operating Activities:			
Net Operating Income (Loss)	\$ (45,036)	\$ 63,293	\$ 18,257
Adjustments to Reconcile Net			
Operating Income (Loss) to Net			
Cash Provided by Operations:			
Depreciation Expense	634,632	130,948	765,580
(Increase) Decrease in Receivables	(3,693)	(6,442)	(10,135)
Increase (Decrease) in Current Payables	(358,024)	(10,946)	(368,970)
Increase (Decrease) in Accrued Employee Benefits	(6,394)	7,602	1,208
Increase (Decrease) in Customer Deposits	1,200	-	1,200
Increase (Decrease) in Deferred Lease	(758)	-	(758)
Total Adjustments	266,963	121,162	388,125
Net Cash Provided by Operating Activities	\$ 221,927	\$ 184,455	\$ 406,382
Noncash Investing, Financing and Capital Activities			
Capital Assets - Donated	34,233	17,965	52,198
Gain / (Loss) on Joint Venture	183,621	-	183,621
Total Noncash Investing, Financing and Capital Activities	\$ 217,854	\$ 17,965	\$ 235,819

The notes to the financial statements are an integral part of this statement

CITY OF PORT ORCHARD  
Statement of Fiduciary Net Position  
Fiduciary Funds  
December 31, 2013

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	Agency Funds
<b>Assets:</b>	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 2,766,912
Total Assets	<u>2,766,912</u>
<b>Liabilities</b>	
Accounts Payable	33
Custodial Accounts	<u>2,766,879</u>
Total Liabilities	<u>\$ 2,766,912</u>

The notes to the financial statements are an integral part of this statement

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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The financial statements of the City of Port Orchard have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting and Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

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**A. REPORTING ENTITY**

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The City of Port Orchard, Washington was incorporated on September 1, 1890 and operates under the laws of the state of Washington applicable to non-charter code cities (second-class city) with a Mayor/Council form of government. As required by the Generally Accepted Accounting Principles the financial statements represent the City of Port Orchard. The City has no component units.

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**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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Government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

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Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2013

recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements report the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Property tax is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General fund (current expense) is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Included and reported in the General Fund are two managerial funds one of those is the City Street fund which accounts for a percentage of the revenue from state motor vehicle fuel taxes and expenditures for street construction, maintenance and repair. This fund accounts for transportation activities that the City Council wants to review separately from other activities. The other fund included in the General fund is the Stabilization fund.

The Cumulative Reserve for Municipal Facilities is a capital projects fund used to account for financial resources, including Real Estate Excise Tax (REET), to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). REET is imposed on the sale of real property. The first quarter percent is dedicated to local capital projects as identified in RCW 82.46. The second quarter percent shall be used solely for financing capital projects specified in a capital facilities plan element of a comprehensive plan. In 2011 legislature expanded, for a limited period of time, the uses of REET both the first and second quarter. Cities may now, with restrictions, use REET 1 & 2 for operation and maintenance of existing capital facilities. This new authority expires on December 31, 2016. Cumulative Reserve for Municipal Facilities also accounts for grant funding for facility improvements.

The Street Capital Projects fund is used for the receipt and expenditure of a percentage of the state levied motor vehicle fuel taxes distributed to the City. The City utilizes these revenues as matching funds for grants specified for arterial street purposes. These are restricted revenue sources. Projects that use this tax are reflected on the six-year transportation improvement program as passed annually by Council.



CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2013

The government reports the following major proprietary funds:

The Water Sewer fund accounts for the activity of the City's utilities. Its revenues are received from the sales of water and sewer services. Expenses are for the maintenance and extensions of water and sewer service facilities, operating a water supply system, maintaining a sewer treatment plant and lift stations.

The Storm Drainage Fund monitors and maintains the City's storm and surface water drainage. Revenues are based on fees received from properties within City limits that have impervious surfaces. Expenses are for operation, maintenance and improvement of the City's storm and surface water drainage system.

Fiduciary funds represent assets held in a trustee or agency capacity for others and do not report results of operation.

The City has two fiduciary funds. The Wastewater Treatment Facility Fund receives money from the joint venture to repay the Public Works Trust Fund loans. Also deposited into this fund are the Wastewater Treatment Facility Fees component of the Sewer Capital Facility Charge and interest earnings on such funds. These dollars are held in trust to mitigate the debt and future construction costs for the Wastewater Treatment Facility. The Trust and Agency Fund collects fees which the Treasurer, acting as an intermediary depository, shall distribute to the proper agencies on a regular and timely basis. Examples of these fees include but are not limited to state court fines, county crime victim fines, state building code fees, state concealed pistol licenses and background checks.

Additionally, the government reports the following fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital project funds are used to account for and report for financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water, sewer and storm functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, except those that are credited to their appropriate restricted fund.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2013

delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**D. BUDGETARY INFORMATION**

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**1. Scope of Budget**

Annual appropriated budgets are adopted for the general fund, special revenue funds, debt service funds not related to special assessments, and capital project funds on the modified accrual basis of accounting. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects. The budgetary basis of accounting differs from generally accepted accounting principles. The City budgets the City Street activity and Stabilization activity as if they were special revenue funds. However, GAAP requires these activities to be reported with the General Fund, as they do not have significant streams of restricted resources. From a budgetary perspective, the City budgets for City Street activity and Stabilization activity separate from the General Fund. The budgetary comparison for the General Fund does not include the managerial funds.

Proprietary funds are budgeted on the full accrual basis for management control purposes only. Appropriations lapse at year-end.

**2. Adopting the Budget**

The City's budget procedures are mandated by RCW 35.33. The steps in the budget process are as follows:

- a. No later than the first Monday in October, the Mayor submits to the City Council. This budget is based on priorities established by the Council and estimates provided by City Departments during the preceding months, and balanced with revenue estimates made by the City Treasurer.
- b. The Council conducts public hearings on the proposed budget in October and December.
- c. The Council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31.

**3. Amending the Budget**

The City Treasurer is authorized to transfer budgeted amounts between departments within any fund; however any revisions that alter the total expenditures of a fund or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

When the Council determines that it is in the best interest of the City to increase or decrease the appropriations for a particular fund, it may do so by ordinance approved by one more than the majority after holding public hearing(s).

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2013

Budget amounts shown in the basic financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

E. ASSETS, LIABILITIES, FUND BALANCE, NET POSITION

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1. Cash & Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash resources of individual funds are invested into government investment pools with interest directly accruing for the benefit of the investing funds. This policy covers all funds operated by the City. Cash resources required for immediate reasons (within the next month) are invested to the extent possible in short-term investments with interest accruing to the benefit of each individual fund based on the monthly average cash balance of each fund.

Statutes authorize the City to invest in obligations of the U.S. Treasury, U.S. Agencies and instrumentalities, banker's acceptances, repurchase agreements, and the State Treasurer's and County's Investment Pool. The City is also authorized to enter into reverse repurchase agreements, but did not participate in these investments during 2013.

Investments for the City are reported at fair value. The State Treasurer's Investment Pool and Kitsap County Investment Pool operate in accordance with appropriate state laws and regulations. The reported values of the pools are the same as the fair value of the pool shares.

For purposes of the statement of cash flows, the City considers the State and County government investment pools and all highly liquid investments with maturity of three months or less to be cash equivalents.

2. Investments See Note 4. Deposits and Investments

3. Receivables

Property tax revenues are recognized when cash is collected. The amount of taxes receivable at year-end that would be collected soon enough to be available to pay the liabilities of the current period is immaterial.

The Kitsap County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually before December 15, and become a lien as of January 1, on property value listed as of the prior May 31. Assessed values are established by the County assessor at 100 percent of fair market value. A physical inspection of all property is required at least every six years with annual review and update based on sales analysis.

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2013

Taxes are due in two equal installments on April 30 and October 31. The county treasurer remits collections monthly to the appropriate district. Taxes receivable consists of property taxes and related interest and penalties. (See Note 5)

Special assessments are recorded when levied. Special assessments receivable consists of current and delinquent assessments and related interest and penalties. Assessments consist of unbilled special assessments that are liens against the property benefited. There were no outstanding special assessments receivables at December 31, 2013.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open accounts from private individuals or organizations for goods and services rendered.

4. Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either interfund loans receivable/payable or advances to/from other funds. All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances. In 2013, there were no interfund loans receivable and payable.

5. Inventories

Inventories in governmental and proprietary funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual items are purchased.

6. Restricted Assets and Liabilities

These accounts contain resources for programs, construction, and impact fees. The current portion of related liabilities is shown as Payables from Current Restricted Assets. Specific debt service reserve requirements are described in Note 11, Long-Term Debt.

7. Capital Assets See Note 6, Capital Assets

Capital assets, which include property, intangible assets, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$4,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2013

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

<b><u>Asset Category</u></b>	<b><u>Useful Life</u></b>
Buildings	50
Infrastructure	10-40
Intangible Assets	6
Utility Improvements	10-100
Mowers/Public Works Equipment	6-12
Vehicles	5

The City has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the City has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable column in the statement of net position.

**8. Deferred Outflows/Inflows of Resources**

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

	<b><u>Unavailable</u></b>
Delinquent property taxes receivable (general)	\$ 125,904
Court receivables-not yet collected (general)	464,551
Court receivables-not yet collected (nonmajor governmental funds)	56,116
<b>Total</b>	<b><u>\$ 646,571</u></b>

The deferred inflow of resources recognized in the government-wide financial statements is a deferred amount on refunding of debt that will be amortized over the life of the refunding bond issue.

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2013

9. Unearned Revenue

Governmental funds also defer revenue recognition in connection with resources that have been received, but have not yet been earned.

	<u>Unearned</u>
Grant received in advance-SHIP Grant	\$ 40,038
Kitsap Transit Prepaid Lease-not yet earned	11,917
<b>Total</b>	<b><u>\$ 51,955</u></b>

10. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and comp-time. In governmental funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure. In prior years the General Fund has typically been used to liquidate compensated absences. In proprietary (and similar trust) funds, compensated absences are recorded as an expense and liability of the fund that will pay for them.

For all employees except LEOFF II employees, vacation pay, which may be accumulated up to 30 days at December 31, is payable upon resignation, retirement or death (upon termination, pay is limited to 240 hours). There is no cap on the amount of payment for accrued vacation for LEOFF II employees (excluding management) upon termination. LEOFF II employees (excluding management) earn 120 hours holiday leave annually and may carry over 96 hours at December 31. There is no cap on the holiday leave payable upon resignation, retirement or death. Sick leave may be accumulated up to 960 hours and is not payable upon resignation, retirement or death for all employees except LEOFF II (excluding management). LEOFF II employees (excluding management) can accumulate more than 960 hours during the year, but may only carry over 960 hours from one year to the next. LEOFF II employees (excluding management) hired as a fully commissioned officer in 1985 or before and are continuously employed by the City, may elect to cash out up to 400 hours of accrued but unused sick leave, upon permanent separation from the City due to the employee's death, disability or voluntary termination.

11. Other Accrued Liabilities

This is accounts payable and accrued interest payable.

12. Long-Term Debt See Note 13, Changes in Long-Term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Bond premiums (discounts) are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium (discount).

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Notes to Financial Statements  
December 31, 2013

In the fund financial statements, governmental fund types recognize bond premium (discounts) during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses.

13. Fund Balance Classification

The City presents fund balance classifications as follows:

- Restricted fund balance: includes amounts that can be spent only for the specific purposes stipulated by external resource providers (for example, grant providers), constitutionally, or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- Committed fund balance: includes amounts that can be used only for specific purposes determined by formal action of the government's highest level of decision-making authority. The City Council enacts ordinances and resolutions that may impose, modify or rescind fund balance commitments. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- Assigned fund balance: comprises amounts intended to be used by the government for specific purposes. Intent can be by City Council action or by the City Treasurer. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- Unassigned fund balance, is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. If another governmental fund has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification in that fund. Positive unassigned amounts will be reported only in the general fund.
- When both restricted and unrestricted resources are available, the City's policy is to use restricted resources first, and then unrestricted resources, as they are needed. When committed, assigned or unassigned amounts are available, the City's policy is to use committed resources first, assigned secondly and finally unassigned resources.

14. Fund Balance Details

Reserve Policies

The City will maintain the reserves, contingencies, and ending fund balances of the various operating funds at levels sufficient to protect the City's credit as well as its financial position from emergencies.

General Fund Reserves

The City recognizes that reserves need to be acquired over multiple budget years, and require discipline and a strong commitment to maintain them.

Reserves are a necessary component of the overall finance management strategy of the City. Reserves serve a variety of purposes; 1) Ensuring adequate resources for cash flow, 2) Mitigating short-term effects of revenue shortages, 3) Leveraging beneficial opportunities, 4)



CITY OF PORT ORCHARD

Notes to Financial Statements

December 31, 2013

Providing the ability to exercise flexible financial planning, and 5) To address unforeseen emergencies or changes in conditions.

The City will strive to maintain a two tier reserve structure.

- Assigned Ending Fund Balance designated as working capital in the general fund
- Stabilization Arrangement reported as restricted or committed in the general fund

#### Working Capital

The City's goal shall be to maintain an undesignated General Fund ending fund balance of at least five percent of budgeted General Fund operating revenues. Ending fund balance may be used to cover cash flow needs caused by the ad valorem tax cycle which results in the traditional "W" cash flow sequence. Ending fund balance reserve is considered working capital of the General Fund.

#### F. OTHER

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##### **Stabilization Arrangement**

A City Stabilization Arrangement in an amount of two months of its five year arithmetic mean of General Fund expenditure budget may be maintained annually as resources allow. Funding may come from one time revenues, monthly budgeted amounts from general revenues, and transfers from ending fund balance as authorized by Council resolution.

Stabilization reserves shall be used if all efforts have been exhausted to fund a qualifying event and no reasonable budget adjustments are available to continue to provide essential services to the public. The City Treasurer must quantify, document and present the significance of the qualifying event. Authorization for spending stabilization reserves requires a simple majority vote of the City Council.

##### Qualifying Events:

- The state of Washington or Federal government formally declares a disaster or emergency.
- A natural or urgent event that jeopardizes public safety, impedes commerce, or threatens additional damage to City infrastructure.
- Unforeseen events or situation outside of the scope of contingency, planning or planned normal course of government operations.
- An act of war, terrorism, or declaration of Martial law.



**NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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**A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION**

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The governmental funds balance sheet includes a reconciliation between fund balance—total governmental funds and net position—governmental activities as reported in the government-wide statement of net position.

One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows:

<b>Bonds Payable</b>	\$ 876,000
Plus: Deferred charge on refunding (to be amortized as interest expense)	7,072
Plus: Issuance premium (to be amortized as interest expense)	2,875
Accrued interest payable	2,593
Other post employment benefits	368,191
Compensated absences	380,241
	<u><u>\$ 1,636,972</u></u>
<b>Net adjustment to reduce fund balance-total governmental funds to arrive at net position-governmental activities</b>	

**B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

---

The governmental funds statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances—total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, “governmental funds report capital outlays as expenditures.” However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows:

Current Year Capital outlay	\$ 1,807,137
Current Year Depreciation expense	(978,638)
<b>Net adjustment to decrease net changes in fund balances-total governmental funds to arrive at change in net position of governmental activities</b>	<u><u>\$ 828,499</u></u>

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2013

Another element of that reconciliation is the net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) to increase net position. The details of this are as follows:

Donated Capital Assets	\$ 127,841
Sale of Capital Assets	\$ (54,795)
Gain on Sale of Capital Assets	22,995
<b>Increase in Net Position</b>	<b><u>\$ 96,041</u></b>

Another element of that reconciliation states that “revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$53,467 differences are as follows:

Municipal Court & Non-major fund revenues	\$ 101
Tax revenues - unavailable	(53,568)
<b>Net adjustment to increase net changes in fund balances- total</b>	<b><u>\$ (53,467)</u></b>
<b>governmental funds to arrive at changes in net position of governmental activities</b>	

Another element of that reconciliation states “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of the (\$94,605) difference is as follows:

Accrued interest	\$ 342
Employee benefits accrual	(15,507)
Amortization of deferred amount on refunding	1,266
Amortization of bond premiums	522
OPEB	(81,228)
<b>Net adjustment to decrease net changes in fund balances- total</b>	<b><u>\$ (94,605)</u></b>
<b>governmental funds to arrive at changes in net position of governmental activities</b>	

### **NOTE 3. VIOLATIONS OF FINANCE-RELATED LEGAL OR CONTRACTUAL PROVISIONS**

On April 23, 2013 the City Council passed Resolution No. 008-13 directing the repayment of \$10,090.94 to the Recreation and Conservation Office for grant funds disbursed for the Blackjack Creek Trail grant.

#### **NOTE 4. DEPOSITS AND INVESTMENTS**

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##### **A. DEPOSITS**

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The City has no policy related to custodial credit risk; however, all deposits are insured or collateralized with securities held by the entity or by the agent in the City's name.

The Washington State Treasurer's Office Local Government Investment Pool is classified as a 2(a) 7 investment pool, and therefore the City states the fair value of its investment in the pool based upon the share price of the pool. The taxes and fees collected by the Kitsap County Treasurer, on behalf of the City, are deposited directly into the Kitsap County Investment Pool and credited to the City. The City considers the amount invested in the government investment pools to be liquid investments, and as such are cash equivalents.

The book value of deposits does not materially differ from the bank balance of deposits.

As of December 31, 2013, the carrying amount of City cash and cash equivalents is as follows:

<b>City Cash &amp; Cash Equivalents</b>	<b>12/31/2013</b>
Cash on hand	\$ 3,750
Cash deposits in bank accounts	644,548
Cash deposits in bank accounts-SHIP	48,817
Washington State Local Government Investment Pool	5,127,403
Kitsap County Investment Pool	7,034,982
<b>Total City cash and cash equivalents</b>	<b>\$ 12,859,500</b>

As of December 31, 2013, the carrying amount of Fiduciary cash and cash equivalents is as follows:

<b>Fiduciary Cash &amp; Cash Equivalents</b>	<b>12/31/2013</b>
Cash deposits in bank accounts	230
Washington State Local Government Investment Pool	1,224,547
Kitsap County Investment Pool	1,542,135
<b>Total Fiduciary cash and cash equivalents</b>	<b>\$ 2,766,912</b>

The City's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

##### **B. INVESTMENTS**

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As required by state law, all investments of the City's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, general obligations of Washington State municipalities, or certificates of deposit with Washington State banks and savings and loan institutions. All temporary investments are stated at fair value. The only

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investments made by the City are with the Washington State Treasurer's Office Local Government Investment Pool (LGIP), and the Kitsap County Investment Pool, which are classified as cash equivalents. These are unrated external investment pools.

Further, the City is not subject to foreign currency risk or interest rate risk.

## **NOTE 5. PROPERTY TAX**

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The Kitsap County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed after the end of each month.

### **Property Tax Calendar**

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
July 31	New construction valued as of July 31 <sup>st</sup> of the assessment year.
October 31	Second Installment is due.

Property taxes revenues are recognized when cash is collected. The amount of taxes receivable at year-end that would be collected soon enough to be available to pay liabilities of the current period is immaterial. The balance at year-end is recorded as taxes receivable.

A City is permitted by law to levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services. The City is annexed to South Kitsap Fire and Rescue and Kitsap Regional Library. South Kitsap Fire may levy up to \$1.50, Kitsap Regional Library may levy up to \$0.50; the difference of South Kitsap Fire's levy and Kitsap Regional Library's levy, and \$3.60 is the City's capacity.

The City's regular levy for 2013 was \$1.757258 per \$1,000 on an assessed valuation of \$1,312,770,504 for a total regular levy of \$2,306,877.

For 2013, the City levied the following property taxes:

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<b>Purpose of Levy</b>	<b>Levy Rate per \$1,000</b>	<b>Levy Amount</b>
Port Orchard City	1.757258	2,306,877
State School Levy	2.507082	3,291,223
Kitsap County CE	1.201566	1,577,380
PUD	0.081725	107,286
Port of Bremerton	0.383518	503,471
SK Schools	3.224369	4,232,857
SK Fire & Rescue	1.951439	2,561,792
Kitsap Regional Library	0.391114	513,444
<b>Totals</b>	<b>11.498071</b>	<b>15,094,330</b>

Special levies approved by the voters are not subject to the limitations listed above. In 2013, there were no outstanding voter approved bonds, therefore there was no additional levy.

Washington State Constitution and Washington State Law, RCW 84.55.010 limit the rate.

## **NOTE 6. CAPITAL ASSETS**

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### **A. CAPITAL ASSETS**

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A summary of capital asset activity for the year ended December 31, 2013 was as follows:

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	Beginning Bal. 01/01/13	Increases	Decreases	Ending Bal. 12/31/13
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land and other improvements*	\$ 1,737,976	\$ -	\$ 31,800	\$ 1,706,176
Intangible Assets	2,884,072	141,726	-	3,025,798
Construction in progress*	1,830,667	244,803	223,117	1,852,353
Total capital assets, not being depreciated	6,452,715	386,529	254,917	6,584,327
Capital assets, being depreciated/depleted:				
Buildings	6,604,715	724,602	-	7,329,317
Equipment	2,945,867	151,762	167,752	2,929,877
Infrastructure*	28,047,147	894,091	-	28,941,238
Intangible Assets	78,499	1,110	-	79,609
Total capital assets being depreciated	37,676,228	1,771,565	167,752	39,280,041
Less accumulated depreciation for:				
Buildings	1,858,776	143,429	-	2,002,205
Equipment	2,060,718	175,871	167,752	2,068,837
Infrastructure*	14,649,582	654,627	-	15,304,209
Intangible Assets	54,745	4,710	-	59,455
Total accumulated depreciation	18,623,821	978,637	167,752	19,434,706
Total capital assets, being depreciated, net	19,052,407	792,928	-	19,845,335
<b>Governmental activities capital assets, net</b>	<b>\$ 25,505,122</b>	<b>\$ 1,179,457</b>	<b>\$ 254,917</b>	<b>\$ 26,429,662</b>

\*Note: The beginning balance of Land was adjusted due to a correction. Construction in Progress, and Infrastructure are adjusted due to projects which were cancelled and removed from capital assets.

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental activities:</b>	
General government	\$ 139,683
Security of persons and property	110,303
Transportation	693,952
Physical environment	-
Culture and recreation	34,700
<b>Total depreciation expense—governmental activities</b>	<b>\$ 978,638</b>

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	<b>Beginning Bal. 01/01/13</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Bal. 12/31/13</b>
<b>Business-type Activities:</b>				
Capital assets, not being depreciated				
Land and other improvements	\$ 786,712	\$ -	\$ -	\$ 786,712
Intangible Assets	406,211	52,198	-	458,409
Construction in progress	1,417,955	557,539	17,474	1,958,020
Total capital assets, not being depreciated	2,610,878	609,737	17,474	3,203,141
Capital assets, being depreciated/depleted:				
Buildings	3,815,270	4,184	-	3,819,454
Equipment	4,570,327	-	-	4,570,327
Infrastructure	37,401,646	412,648	-	37,814,294
Intangible Assets	126,470	1,563	-	128,033
Total capital assets being depreciated	45,913,713	418,395	-	46,332,108
Less accumulated depreciation for:				
Buildings	931,099	79,140	-	1,010,239
Equipment	2,957,741	214,194	-	3,171,935
Infrastructure	6,008,097	461,052	-	6,469,149
Intangible Assets	25,673	11,193	-	36,866
Total accumulated depreciation	9,922,610	765,579	-	10,688,189
Total capital assets, being depreciated, net	35,991,103	(347,184)	-	35,643,919
<b>Business-type activities capital assets, net</b>	<b>\$ 38,601,981</b>	<b>\$ 262,553</b>	<b>\$ 17,474</b>	<b>\$ 38,847,060</b>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Business-type activities:</b>	
Water-Sewer	\$ 634,632
Storm Drainage	130,948
<b>Total depreciation expense-business-type activities</b>	<b><u>\$ 765,580</u></b>

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**NOTE 7. CONSTRUCTION COMMITMENTS**

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At year-end the government's commitments with contractors were as follows:  
2013 Governmental Construction in Progress Activity:

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
Bay Street Pedestrian Path-Enhancement	\$ 362,085	\$ 206,866
McCormick Woods Park	72,342	-
Tremont Street Widening	1,417,926	2,560
<b>Total</b>	<b>\$ 1,852,353</b>	<b>\$ 209,426</b>

2013 Business-type Construction in Progress Activity:

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
Marina Pump Station	\$ 48,118	\$ -
Tremont Widening Water Mains	29,656	-
Tremont Widening Sewer Mains	29,656	-
Water Rights	72,736	-
2 <sup>nd</sup> Wa Rights-Well #10	9,503	-
Well #9	1,095,252	-
Well #10	136,321	-
Well #11	536,778	-
<b>Total</b>	<b>\$ 1,958,020</b>	<b>\$ -</b>

**NOTE 8. PENSION PLANS**

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Substantially all City of Port Orchard full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to the GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.



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PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) PLANS 1, 2, AND 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

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The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest- paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return- to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit

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component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contribution to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' fiscal year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option. PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance

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their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Non-vested	44,273
<b>Total</b>	<b>263,347</b>

#### Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

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The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

**Members Not Participating in JBM:**

	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

\*\*\* Plan 3 defined benefit portion only.

\*\*\*\* The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

\*\*\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

**Members Participating in JBM:**

	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* Plan 3 defined benefit portion only.

\*\*\*Minimum rate.

Both City and the employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
2013	\$ 17,812	\$ 227,460	\$ 10,128
2012	\$ 15,880	\$ 195,812	\$ 8,712
2011	\$ 13,307	\$ 166,559	\$ 7,347

**LAW ENFORCEMENT OFFICERS' AND FIREFIGHTERS' (LEOFF) PLANS 1 AND 2**

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are

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established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

<b>Term of Service</b>	<b>Percent of Final Average Salary</b>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or



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service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

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There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	10,189
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	689
Active Plan Members Vested	14,273
Active Plan Members Nonvested	2,633
<b>Total</b>	<b>27,784</b>

### Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' fiscal year 2013, the state contributed \$54.2 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	<b>LEOFF Plan 1</b>	<b>LEOFF Plan 2</b>
Employer*	0.18%	5.23%**
Employee	0.00%	8.41%
State	N/A	3.36%

\*The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* The employer rate for ports and universities is 8.59%.

Both City and the employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

	<b>LEOFF Plan 1</b>	<b>LEOFF Plan 2</b>
2013	\$0	\$ 89,408
2012	\$0	\$ 93,237
2011	\$0	\$ 87,776



## NOTE 9. RISK MANAGEMENT

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The City of Port Orchard is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2013, 91 municipalities/entities participate in the RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property reinsurance carrier and fidelity (crime) coverage is a stand-alone policy that the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverages.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$10 million in both per occurrence and aggregate liability limits. For the first \$1 million, AWC RMSA pays out of its own funds all claims up to its Self-Insured Retention (SIR) of \$250,000 and, thereafter, purchases liability re-insurance through Berkley Public Entity of \$750,000. For the additional \$9 million in coverage limits, an excess liability policy is purchased from CV Starr. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. AWC RMSA has a retention of \$50,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is a joint liability among the participants.

Members contract to remain in the RMSA Pool a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors which is comprised of elected officials of participating members.

The specific financials of the AWC RMSA can be seen in their Annual Report on file with the City of Port Orchard.

There have been no settlements in the past three years that exceeded the City's insurance coverage.

## NOTE 10. SHORT-TERM DEBT

The City had no short term debt.

## NOTE 11. LONG-TERM DEBT

### A. LONG-TERM DEBT

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The City has \$1,200,000 in general obligation bonds outstanding on December 31, 2013 for the construction of city hall.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds are either created by 3/5 majority vote of the people and, therefore, financed by a special tax levy; or created by ordinance, adopted by the City Council, and normally financed from general revenues (councilmanic bonds). General obligation bonds currently outstanding are as follows:

Name of Issuance	Purpose	Maturity Date	Interest Rate	Original Amount	Debt Outstanding
	Bus. Type & Gov'tl.				
2003 LTGO Bond	Activities	12/1/2019	2%-3.8%	\$ 3,000,000	\$ 1,200,000
<b>Total General Obligation Bonds</b>					<b>\$ 1,200,000</b>

The City provides for cash to fund current debt service requirements as a part of the budgeting process. Annual debt service requirements to maturity for general obligation bonds are as follows:

	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2014	\$ 135,050	\$ 31,111	\$ 166,161	\$ 49,950	\$ 11,506	\$ 61,456
2015	138,700	26,721	165,421	51,300	9,884	61,184
2016	142,350	22,006	164,356	52,650	8,139	60,789
2017	149,650	17,024	166,674	55,350	6,296	61,646
2018	153,300	11,636	164,936	56,700	4,304	61,004
2019	156,950	5,964	162,914	58,050	2,206	60,256
	<b>\$ 876,000</b>	<b>\$ 114,462</b>	<b>\$ 990,462</b>	<b>\$ 324,000</b>	<b>\$ 42,335</b>	<b>\$ 366,335</b>

All bond issues comply with arbitrage regulations.

### B. GOVERNMENT NOTE

Government note in business activity outstanding at year-end is as follows:

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Name	Original Amount	Purpose	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
Bus.-Type Activities						
McCormick Note	\$ 441,250	Capital	11/23/1998	N/A	0.00%	\$ 170,350
Bus.-Type Total						170,350
<b>Total Note</b>						<b>\$ 170,350</b>

The promissory note that was entered into for the purchase of the McCormick Water Company is being repaid with new McCormick water connection fees as the revenue source. There is \$700 paid on each of the first 550 connections and \$225 paid on the 551<sup>st</sup> through the 800<sup>th</sup> connection. Payments are made no less frequent than quarterly. This type of note does not have a repayment schedule.

#### C. REFUNDED DEBT

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase US Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been removed as a liability from the governmental activities column of the statement of net position. At December 31, 2013, \$26,000 of bonds outstanding are considered defeased.

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**NOTE 12. LEASES**

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Operating Leases

The City is obligated under certain leases accounted for as operating leases. These represent lease of copiers, a postage machine, lease for a police substation and an aquatic lands lease. The lease for the police substation expires May, 2016. The City signed an aquatic lands lease June 4, 2012, with Washington State Department of Natural Resources. The first four year period the lease payment amount is \$21,280.43 (with an inflation adjustment annually.) In 2013, \$21,850.53 was paid to DNR for this lease. At the end of each four year period, the state will re-value the annual rent.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2013:

<b>Year Ending December 31</b>	<b>Total</b>
2014	40,394.02
2015	29,728.78
2016	22,030.43
<b>2017Acquatic lands to be determined</b>	
<b>Total minimum payments required</b>	<b>\$ 92,153.23</b>

Total rent expense for the year ended December 31, 2013 was \$47,701.91.

### **NOTE 13. CHANGES IN LONG-TERM LIABILITIES**

The following is a summary of long-term debt changes of the City for the year ended December 31, 2013:

	<b>Beginning</b>			<b>Ending</b>	<b>Due Within</b>
	<b>Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance</b>	<b>One Year</b>
<b>Governmental activities</b>					
Bonds payable:					
General obligation bonds	\$ 1,007,400	\$ -	\$ 131,400	\$ 876,000	\$ 135,050
Less unamortized amounts					
For issuance premiums (discounts)	3,397	-	522	2,875	522
Total bonds payable	1,010,797	-	131,922	878,875	135,572
Net pension obligation	286,963	147,498	66,270	368,191	-
Compensated absences	364,734	15,507		380,241	352,158
<b>Governmental activity long-term liabilities</b>	<b>\$ 1,662,494</b>	<b>\$ 163,005</b>	<b>\$ 198,192</b>	<b>\$ 1,627,307</b>	<b>\$ 487,730</b>
<b>Business-type activities</b>					
Bonds payable:					
General obligation bonds	\$ 372,600	\$ -	\$ 48,600	\$ 324,000	\$ 49,950
Less unamortized amounts					
For issuance premiums (discounts)	1,248	-	192	1,056	192
Total bonds payable	373,848	-	48,792	325,056	50,142
Private note	173,150	-	2,800	170,350	-
Compensated absences	81,744	1,208	-	82,952	70,862
<b>Business-type activities long-term liabilities</b>	<b>\$ 628,742</b>	<b>\$ 1,208</b>	<b>\$ 51,592</b>	<b>\$ 578,358</b>	<b>\$ 121,004</b>

Due to GASB 65 reclassification Note 13 Changes in Long-Term Liabilities no longer contains issuance costs and deferred amounts on refunding. Issuance costs were removed and deferred amount on refunding is now reported as a deferred inflow of resources.

### **NOTE 14. CONTINGENCIES AND LITIGATION**

The City of Port Orchard has situations which are not yet resolved, but based on available information, in the opinion of management, the City of Port Orchard's insurance policies and/or reserves are adequate to pay all known or pending claims.

The City participates in a number of federal- and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in request for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. (Other than the instances described above,) City management believes that such disallowances, if any, will be immaterial.

## **NOTE 15. RESTRICTED COMPONENT OF NET POSITION**

The government-wide statement of net position reports \$3,622,688 of restricted component of net position, all of which is restricted by enabling legislation.

## **NOTE 16. INTERFUND BALANCES AND TRANSFERS**

### **A. INTERFUND BALANCES**

There were no interfund loans in 2013.

### **B. INTERFUND TRANSFERS**

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services. These are transfers to support other funds without a requirement for repayment. Non-routine transfers included Current Expense receiving \$20,000 for library asbestos abatement from the Cumulative Reserve for Municipal Facilities Fund. Current Expense also received \$72,342 for McCormick Woods Park from Impact Fee Fund. In 2013, City Street transferred \$48,000 to Cumulative Reserve for Equipment Replacement Fund for the reimbursement of a freightliner multipurpose truck that was purchased. The interfund transfer activity for 2013 is as follows:

#### **Transfers In:**

	<b>General Fund</b>	<b>Cumulative Reserve for Municipal Facilities</b>	<b>Nonmajor Gov't Funds</b>	<b>Total</b>
General Fund	\$	20,000	\$ 72,342	\$ 92,342
Nonmajor Governmental Funds	126,000	166,618		\$ 292,618
<b>Total</b>	<b>\$ 126,000</b>	<b>\$ 186,618</b>	<b>\$ 72,342</b>	<b>\$ 384,959</b>

#### **Transfers Out:**

	<b>General Fund</b>	<b>Cumulative Reserve for Municipal Facilities</b>	<b>Nonmajor Gov't Funds</b>	<b>Total</b>
General Fund			\$ 126,000	126,000
Cumulative Reserve for Municipal Facilities	\$ 20,000		\$ 166,618	186,618
Nonmajor Governmental Funds	72,342			72,342
<b>Total</b>	<b>\$ 92,342</b>	<b>\$ -</b>	<b>\$ 292,618</b>	<b>\$ 384,960</b>

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**NOTE 17. RECEIVABLES AND PAYABLES BALANCES**

**A. RECEIVABLES**

	<b>Due from</b>			
	<b>Other</b>			
<b>Governmental Activities:</b>	<b>Gvts</b>	<b>Taxes</b>	<b>Other</b>	<b>Total</b>
General Fund taxes	\$ -	\$ 125,904	\$ -	\$ 125,904
General Fund miscellaneous receivables	-	-	72,218	72,218
General Fund municipal court receivables	-	-	464,551	464,551
General Fund due from other governments	21,955	-	-	21,955
Special Investigative Unit court receivables	-	-	56,116	56,116
Street Capital Projects miscellaneous receivable			1,581	1,581
Street Capital Projects due from other gov/misc rec	11,877	-		11,877
Cumulative Reserve for Municipal Facilities due from other governments	20,481	-	-	20,481
<b>Total Governmental Activities</b>	<b>\$ 54,313</b>	<b>\$ 125,904</b>	<b>\$ 594,466</b>	<b>\$ 774,683</b>
<b>Business Type Activities:</b>				
Water-Sewer accounts receivables	\$ -	\$ -	\$ 668,394	668,394
Water-Sewer miscellaneous receivables	-	-	546	546
Water-Sewer soil clean-up receivable	-	-	117,401	117,401
Storm Drainage accounts receivable	-	-	134,212	134,212
Storm Drainage due from other governments	37,615			37,615
<b>Total Business Type Activities</b>	<b>\$ 37,615</b>	<b>\$ -</b>	<b>\$ 920,553</b>	<b>\$ 958,168</b>

**B. PAYABLES**

	<b>Vendors</b>	<b>Total</b>
<b>Governmental Activities:</b>		
General Fund Payables	\$ 147,084	\$ 147,084
Street Capital Projects Fund Payables	595	595
Cumulative Reserve for Municipal Facilities Fund Payables	52,201	52,201
Non-Major Fund Payables	13,453	13,453
<b>Total Governmental Activities</b>	<b>\$ 213,333</b>	<b>\$ 213,333</b>
<b>Business Type Activities:</b>		
Water Sewer Fund Payables	\$ 79,076	\$ 79,076
Storm Drainage Fund Payables	7,623	7,623
<b>Total Business Type Activities</b>	<b>\$ 86,699</b>	<b>\$ 86,699</b>

## **NOTE 18. JOINT VENTURES**

In 1983, the City of Port Orchard and West Sound Utility District (previously the Karcher Creek Sewer District) amended an intergovernmental agreement relating to the construction and management of the secondary wastewater treatment facility. This joint venture establishes a Sewer Advisory Committee (SAC) consisting of three representatives from each entity who prepare and monitor the Facility's budget. The District and the City share 50% ownership in the facility's total assets. In accordance with the generally accepted accounting principles, the proportional shares of the joint venture's results of operations are presented as a single operating account on the City's proprietary fund's operating statement – Investment in Joint Venture. In 2013, the change in the City's equity in the joint venture was an increase of \$183,621. The City of Port Orchard's equity interest in the secondary Wastewater Treatment Facility as of December 31, 2013 was \$8,203,293.

The Utility District is responsible for the daily operation of the facility. The participants pay their share of the expenses based on their portion of flow into the facility. The City and the District pay the joint venture an amount determined during the budget process to cover maintenance, operation, capital improvements and debt monthly. The current cost sharing is 48% City and 52% District.

The City was the lead agency on the wastewater treatment plant expansion project, and is the signatory on two Public Works Trust Fund Loans for the Facility's expansion. Revenues of the facility are used to make debt service payments on the two loans. Annually, the facility makes a payment to the City to cover the debt service on these loans. The SAC recommended and the City Council and the District Commissioners approved using a portion of Wastewater Treatment Facility Fees collected by each jurisdiction to help make the annual debt payments. This cost sharing formula is 50% and in 2013 each entity paid \$100,000.

<b>Name of Issuance</b>	<b>Purpose</b>	<b>Total Amount of Loan</b>	<b>First Draw Date</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Debt Outstanding</b>
Public Works Trust Fund						
Loan 1	Capital	\$ 10,000,000	2/29/2004	7/1/2022	0.50%	\$ 4,973,355
Loan 2	Capital	6,800,000	6/30/2005	7/1/2024	0.50%	3,960,000
Joint Venture Total						<u>\$ 8,933,355</u>
<b>Total Loans</b>						<b><u>\$8,933,355</u></b>

West Sound Utility District maintains separate accounting records and prepares separate financial statements for the operations of the Joint Wastewater Treatment Facility. Complete financial statements for the Facility can be obtained from West Sound Utility District at 2924 SE Lund Ave, Port Orchard, WA 98366.



**NOTE 19. OTHER POST EMPLOYMENT BENEFITS (OPEB) PLANS**

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**A. PLAN DESCRIPTION – DEFINED BENEFIT – SINGLE EMPLOYER PLAN (LEOFF 1 OPEB)**

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As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977. The members necessary hospital, medical and nursing care expenses, not payable by worker's compensation, social security, insurance provided by another employer, other pension plan or any other similar source are covered. Most medical coverage for eligible retirees is provided by one of the City's employee medical insurance programs. As of December 31, 2013 the City has five members in this group.

This OPEB plan does not issue a stand-alone financial report nor is it included in the report of another entity.

**Funding Policy**

Funding for LEOFF retiree healthcare costs is provided entirely by the City as required by RCW. The City's funding policy is based upon pay-as-you-go financing requirements.

**Actuarial Methods and Assumptions**

The City used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the actuarial accrued liability (AAL) and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF1 medical study performed in 2013. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

**Annual OPEB Cost and Net OPEB Obligation**

The City was required to contribute \$161,829, but only contributed \$66,270 at December 31, 2013. This \$66,270 contributed differs from the Annual Required Contribution (ARC) because the plan is financed on a pay-as-you-go basis. The difference between the OPEB Costs and the required contribution is called the Net OPEB Obligation (NOO). This amount of \$368,191 is the actuarial accrued liability recognized on the government wide statement of net position.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Costs</b>	<b>Percentage of Annual OPEB Costs Contributed</b>	<b>Net OPEB Obligation</b>
2013	\$ 147,498	45%	\$ 368,191
2012	\$ 119,976	63%	\$ 286,963
2011	\$ 115,981	69%	\$ 242,023

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Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Projected Unit Credit	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2013	0	1,799,275	1,799,275	0%	0	N/A
12/31/2012	0	1,413,544	1,413,544	0%	0	N/A
12/31/2011	0	1,352,318	1,352,318	0%	0	N/A

The Annual Required Contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of twenty five years using closed group contribution rates, including an annual budget of \$30,601,768 and annual budget growth of 2.0%, with a +or- 0.5% medical inflation sensitivity performed as of December 31, 2013. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB Obligation. The net OPEB obligation of \$368,191 is included as a non-current liability in the statement of net position.

**Determination of Annual Required Contribution as of December 31:**

	<u>2013</u>
<b>Determination of Annual Required Contribution</b>	
Normal Cost at beginning of year	\$ -
Amortization of UAAL*	161,829
Annual Required Contribution (ARC) at year-end	<u>\$ 161,829</u>
 <b>Determination of Net OPEB Obligation</b>	
Actuarial Required Contribution (ARC 12/31/12)	\$ 161,829
Interest on Net OPEB Obligation (NOO)	11,479
Adjustment to NOO	(25,810)
Annual OPEB Cost	<u>\$ 147,498</u>
 Employer Contributions	\$ (66,270)
Increase (Decrease) in NOO	81,228
Net OPEB Obligation January 1, 2012	286,963
Net OPEB Obligation December 31, 2013	<u><u>\$ 368,191</u></u>

The City's percentage of annual OPEB cost contributed to the plan for 2013 is 45%.

The required schedule of funding progress is immediately following the notes to the financial statements.

**B. OTHER RETIREES - AWC (OTHER THAN LEOFF1)**

The City is a Participating Employer in the Association of Washington Cities Employee Benefit Trust ("Trust"), a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of Participating Employers and their eligible family members. Under Article VII of

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the Trust document, the Trustees have the authority and power to amend the amount and nature of the medical and other benefit provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. That report, along with a copy of the document, may be obtained by writing to the Trust at 1076 Franklin Street SE, Olympia WA 98501-1346 or by calling 1-800-562-8981.

**Funding Policy**

The Trust provides that contribution requirements of participating employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute the following monthly amounts:

<b>Retirees receiving medical benefits from the trust</b>	<b>2013</b>	
	<b>Healthfirst</b>	<b>Healthfirst</b>
	<b>R- 1000</b>	<b>R- 2500</b>
<b>Monthly Contributions:</b>		
Non-Medicare enrolled retiree coverage	\$ 830.01	\$ 724.72
Non-Medicare enrolled spouse coverage	837.26	729.99
Medicare enrolled retiree coverage	443.30	388.08
Medicare enrolled spouse coverage	456.13	398.04

Participating employers are not contractually required to contribute an assessed rate each year by the Trust for the non-LEOFF1 retirees. The retiree pays for 100% of the premium.

**NOTE 20. TERMINATION BENEFITS**

The funding policy for any termination benefits is based upon pay-as-you-go. These termination benefits are handled on a case by case basis.

**NOTE 21. SUBSEQUENT EVENTS**

On April 8, 2014, the City approved Contract No. 043-14 authorizing the Mayor to Execute a Loan Contract with the Department of Commerce in the amount of \$6,060,000 for the Well No. 10 Project. The loan is funded from Drinking Water State Revolving Fund (DWSRF) which is a federal infrastructure loan program designed to assist Municipal and other drinking water system with low-interest construction loan funding. The City's interest rate is 1.5% and the loan term is 24 years.

## **NOTE 21. ACCOUNTING AND REPORTING CHANGES**

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The City of Port Orchard passed Ordinance No. 006-13 on March 26, 2013 abolishing payroll and claims funds for the City of Port Orchard. Effective January 1, 2013 the City began issuing checks instead of warrants.

### GASB No. 61 Implemented

GASB 61 was implemented, however, it did not change how we report the Joint Venture.

### GASB No. 65 Implemented

The City implemented GASB 65 “Items Previously Reported as Assets and Liabilities”, for the year ended December 31, 2013. This required the City to eliminate the amortization of bond issuance costs. The governmental prior period adjustment was \$14,711 and the proprietary prior period adjustment was \$5,410. Some items previously reported as assets and liabilities are now reported as deferred inflows/outflows of resources.

### GASB No. 66 Implemented

GASB 66 Technical Corrections effective for 12/31/13 reporting had no effect on the City financial statements.

## **NOTE 22. PRIOR PERIOD ADJUSTMENTS**

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The Special Investigative Fund accounts receivable was adjusted \$24,473. The City was unaware they had not previously received a full accounts receivable report from Kitsap County.

Capital Assets were adjusted by \$66,670 which included removing the Black Jack Creek Trail project, parking garage, and adding land near Bethel Roundabout that was not previously included in the asset system.

Debt issuance cost adjustments were addressed in the GASB 65 implementation note.

A prior year correction of \$32,500 was made in the general fund which was related to refunding a preliminary plat application and hearing examiner fees from a prior year.

Required Supplementary Information  
LEOFF 1 Retiree Medical Benefits  
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Projected Unit Credit	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2011	0	\$1,352,318	\$1,352,318	0%	0	N/A
12/31/2012	0	\$1,413,544	\$1,413,544	0%	0	N/A
12/31/2013	0	\$1,799,275	\$1,799,275	0%	0	N/A

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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